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Canada's Entrepreneurial Drought

Part 2: Fixing Canada's Shrinking Business Landscape

April 2026

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Executive summary

Small and medium-sized enterprises (SMEs) remain resilient and adaptable, but they are operating in an increasingly challenging environment marked by rising costs, regulatory complexity, labour shortages, and economic uncertainty. Addressing these pressures is essential, not only to support existing businesses, but also to encourage the next generation of entrepreneurs.

Canada’s SMEs have long provided stability in uncertain times, anchoring communities and driving local economies. But ongoing economic instability is making it harder for many small firms to plan, invest, and grow—discouraging others from starting up at all. Data now indicates the pool of new businesses is shrinking. Since early 2024, business exits have consistently exceeded new entries, resulting in a net loss of entrepreneurial activity.[1]

Canada is experiencing an entrepreneurial drought—a sustained period when business exits consistently outpace new business starts, leading to a shrinking entrepreneurial base and reduced confidence in the viability of entrepreneurship.

To reverse this trend, the Canadian Federation of Independent Business (CFIB) prepared this report to outline practical recommendations aimed at strengthening entrepreneurship and fixing Canada’s shrinking business landscape.

This report identifies three priority areas for action:

- **Reducing the cost of doing business** - lowering the tax burden, improving access to financing, and ensuring government programs and procurement processes are accessible to small firms.
- **Cutting red tape** - reducing the regulatory burden, streamlining internal trade, and removing unnecessary barriers that consume time and resources that could otherwise be invested in growth.
- **Responding to Canada’s evolving labour market** - addressing labour shortages, protecting access to temporary foreign workers, and ensuring smooth business succession as many owners approach retirement.

Together, these reforms can help restore confidence among entrepreneurs, improve the competitiveness of Canadian businesses, and reverse Canada’s entrepreneurial drought.

Reinvigorating entrepreneurship is not only about supporting today’s small businesses. It is also about ensuring Canada remains a country where individuals are willing and able to start, grow, and pass on businesses.

By lowering barriers to entry, improving the environment for investment and expansion, and recognizing the critical role entrepreneurs play in the economy, policymakers can help ensure Canada’s small business sector continues to drive innovation, job creation, and prosperity.

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Introduction

Canada is currently facing an entrepreneurial drought—a sustained period when business exits consistently outpace new business starts.[i] Since early 2024, closures have consistently outpaced new startups, resulting in a net loss of entrepreneurial activity (Figures 1A and 1B).[2] In the second quarter of 2025, exit rates reached 5.6%, while entry rates fell to 4.8% (Q4 2025), marking some of the highest closure rates and weakest startup activity outside the pandemic.[3]

Figure 1A

Exits outpacing entries since early 2024, by quarter

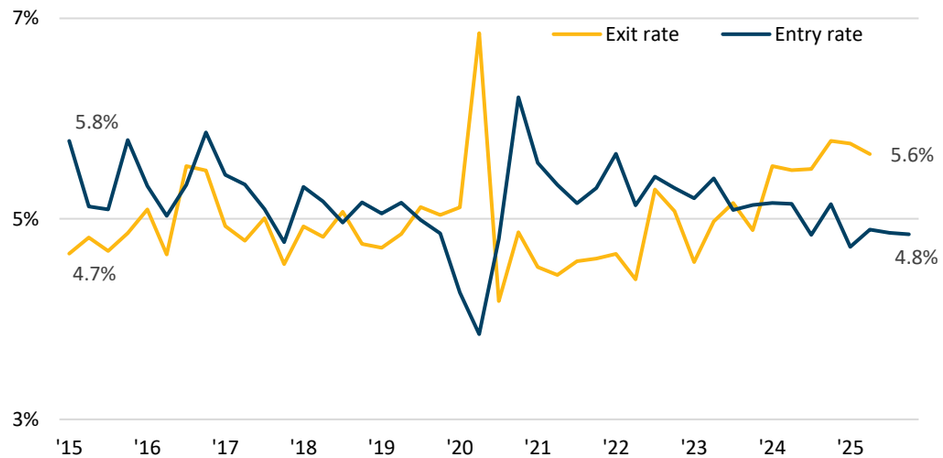
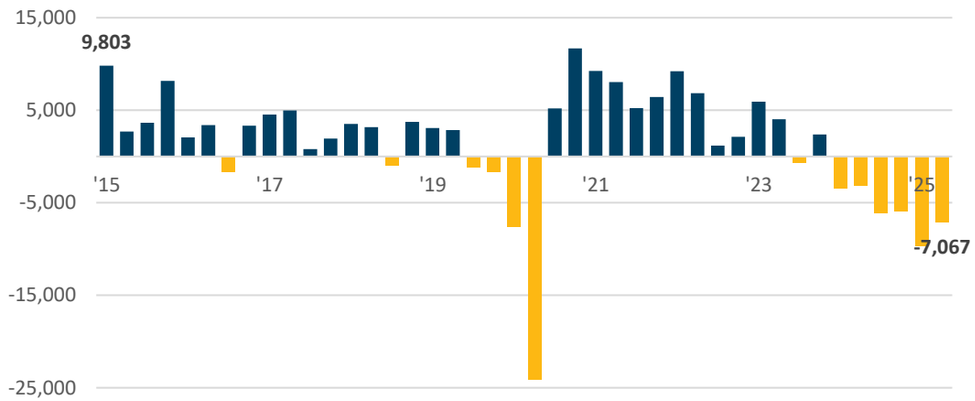


Figure 1B

Net business entries, quarterly data, Q1 2015 to Q2 2025, Canada



Source: Authors' calculation based on Statistics Canada (Table 33-10-0270-01, Experimental estimates for business openings and closures for Canada, provinces and territories, census metropolitan areas, seasonally adjusted). Data retrieved on March 23, 2026.

Notes:

a. Figure 1A: Entry rate and exit rate in this chart are the ratio of entries or exits divided by the number of active businesses for a given quarter. Productivity refers to labour productivity growth (real GDP per hour worked).
b. Figure 1B: Net change = [Business entries] - [Business exits]. Net change data is presented quarterly from Q1 2015 to Q2 2025. November 2018 data is replaced with October 2018 data, as the original table from Statistics Canada is to be used with caution.
c. Estimates are based on the most recent Statistics Canada release (data retrieved on March 24, 2026). However, these figures may be adjusted in future reporting cycles.
d. The definition of exits is based on the Longitudinal Employment Analysis Program (LEAP) annual exits. Because the LEAP definition can require up to 24 months of data to be counted as an exit, projections of exits using predicted growth rates are implemented using a regression model of exits on closures of more than 6 months. As a result, there are no published exits in the last six months.

[i] CFIB's definition of the entrepreneurial drought: a period where, over a four-quarter period, the average number of business closures exceeds the average number of business start-ups, resulting in a sustained net loss of entrepreneurial strength. Further details are provided in Part 1.

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SMEs are navigating a challenging environment marked by rising operational costs, regulatory complexity, labour shortages, and ongoing trade tensions. Against this backdrop, entrepreneurial confidence is declining, and fewer Canadians are willing to take the risk of starting a business (Figure 2).

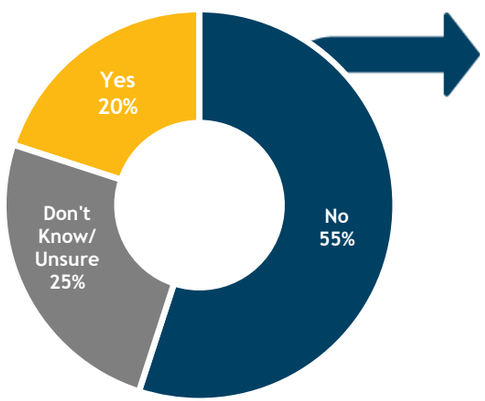
Persistent pressures such as a heavy tax burden, government regulation, and labour constraints are limiting SMEs' ability to grow. Regulatory compliance alone costs Canadian SMEs over $50 billion annually, with 35% of that—just under $18 billion—attributable to unnecessary red tape that drains valuable time and resources that could otherwise be invested in growth and innovation.[4] In addition, more than a third (38%) of small businesses say skilled labour shortages are constraining their productivity, while only around 1 in 6 (17%) report being able to expand their workforce at this time.[5]

These pressures are also shaping how current business owners view entrepreneurship itself. More than half of Canada's small business owners say they would not recommend starting a business at this time (Figure 2). A meaningful shift is needed to create an environment where entrepreneurship is once again seen as achievable, worthwhile, and supported.

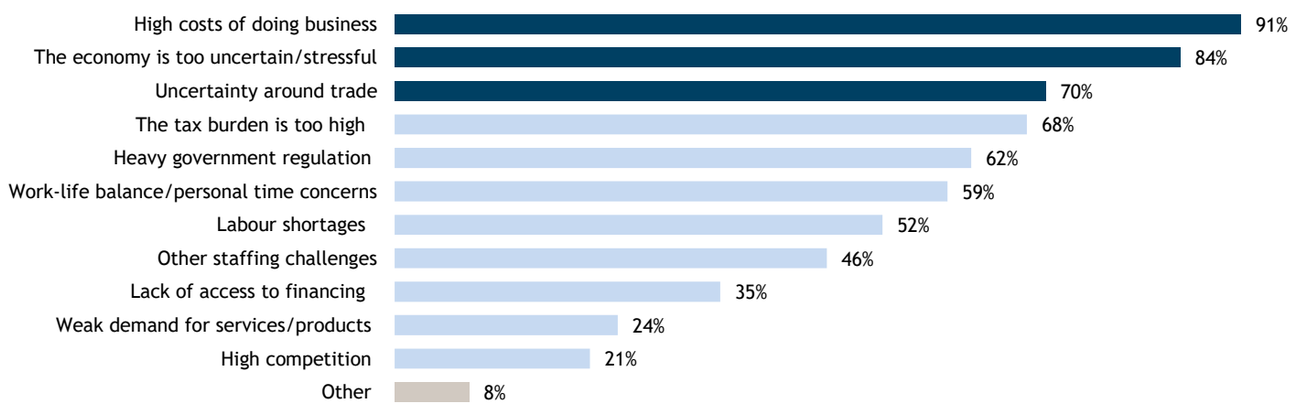
Figure 2

Small business owners underscore caution toward starting a business in today's conditions, with 1 in 2 not recommending it

Would you advise someone to start a business now?



Why do you think now is not a good time to start a business?


High costs of doing business 91%
The economy is too uncertain/stressful 84%
Uncertainty around trade 70%
The tax burden is too high 68%
Heavy government regulation 62%
Work-life balance/personal time concerns 59%
Labour shortages 52%
Other staffing challenges 46%
Lack of access to financing 35%
Weak demand for services/products 24%
High competition 21%
Other 8%

Source: CFIB, Your Voice Survey – October 2025, October 9-24, 2025, n = 2,548 (left), n = 1,386 (right).

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Rebuilding Canada’s entrepreneurial foundation will require deliberate, coordinated action to restore confidence, reduce barriers, and make it easier (not harder) for entrepreneurs to start, grow, and sustain a business.

This report builds upon CFIB’s work on tax competitiveness, regulatory reform, internal trade liberalization, and labour market policy to outline practical, actionable steps governments can take to help strengthen entrepreneurship and fix Canada’s shrinking business landscape. It is the second report in a two-part series examining the health of Canada’s small business sector and the actions required to support a dynamic economy.

- **Part 1**[6] of the report series examines the scale and consequences of a concerning trend: business exits are increasingly outpacing new business entries. Entrepreneurial confidence is weakening, and without meaningful action, this shift threatens Canada’s long-term economic dynamism, innovation, and job creation.

- **Part 2, presented in this report**, focuses on practical solutions to reverse this trend and strengthen the conditions for entrepreneurship in Canada.

This report identifies three key priority areas and outlines a series of recommendations aimed at supporting business creation and long-term growth:

- **Priority area 1:** Reducing the cost of doing business through tax reform, improving access to financing, and creating a level playing field for small firms.
- **Priority area 2:** Cutting red tape by freeing SMEs from unnecessary regulatory burden and streamlining internal trade.
- **Priority area 3:** Responding to Canada’s evolving labour market by supporting workforce development, protecting access to temporary foreign workers, and ensuring smooth business succession.

Small businesses are not only job creators: they are the backbone of local economies, drivers of innovation, and essential to community resilience. When entrepreneurship declines, the impacts ripple far beyond individual business owners, affecting economic growth, competitiveness, and the vitality of communities across the country.

The path forward is clear: with the right policy choices and a renewed focus on enabling business creation and growth, governments can help fix Canada’s entrepreneurial drought.

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Priority area 1: Reducing the cost of doing business

Fiscal pressures continue to strain small businesses

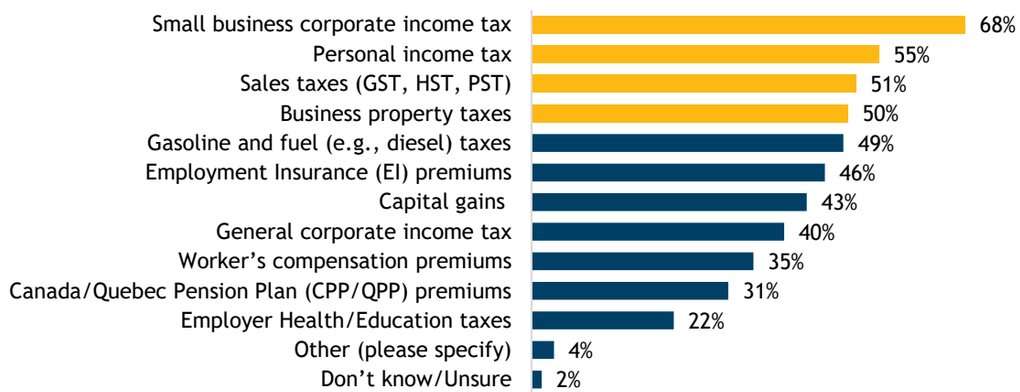
The current business policy environment is failing to foster competitiveness and productivity. Canada’s economy lags behind its peers, with a real GDP per capita 8% lower than the OECD average in 2024. Compared with the United States alone, Canada’s real GDP per capita was 12% lower.[7] This gap in performance requires policy changes.

As reported in CFIB’s Monthly Business Barometer®, SMEs consistently identify tax and regulatory costs as a top barrier to their growth. They believe governments need to prioritize reducing the overall tax burden (77%), and support investments to improve productivity (57%).[8] As such, important changes are needed to ensure SMEs’ success and Canada’s long-term economic prosperity.

If governments reduced taxes, small businesses would use tax savings in ways that boost the economy. This includes increasing employee compensation (54%), expanding their business (50%), and hiring new employees (36%).[9] As shown in Figure 3, small business owners have a clear preference for cuts to small business corporate income taxes.

Figure 3

If governments (federal, provincial/territorial, and municipal) were to reduce taxes, Canadian businesses would prefer cuts to small business corporate income taxes


Small business corporate income tax 68%
Personal income tax 55%
Sales taxes (GST, HST, PST) 51%
Business property taxes 50%
Gasoline and fuel (e.g., diesel) taxes 49%
Employment Insurance (EI) premiums 46%
Capital gains 43%
General corporate income tax 40%
Worker’s compensation premiums 35%
Canada/Quebec Pension Plan (CPP/QPP) premiums 31%
Employer Health/Education taxes 22%
Other (please specify) 4%
Don’t know/Unsure 2%

Source: CFIB, July Your Voice Survey – July 10-24, 2025, based on 2,044 responses. Final results.

Policy recommendations

CFIB urges governments to create a better fiscal environment for Canadian SMEs by taking the following actions:

1. Reduce small business corporate income tax rates (SBCTR).
   - At the federal level, reduce the SBCTR from 9% to 6%.
   - Provincial governments should permanently lower the SBCTR to 0% by 2030.[10]
2. Federal and provincial governments should raise the SBCTR threshold to at least $700,000 and index it to inflation going forward.
3. The federal government should increase the passive income threshold to $60,000 and index it to inflation moving forward, as it remains at $50,000 and has not increased since 2018.
4. Implement a business income deduction for personal income tax filers so sole proprietors don't pay tax on a portion of their business income, similar to the Qualified Business Income (QBI) deduction in the U.S.[11]
5. Implement a lower property tax rate for small businesses, to reduce property tax unfairness, similar to the small business property tax subclass in Toronto and Ottawa.
6. Introduce a lower employment insurance (EI) premium rate for smaller employers, by introducing a permanent, targeted credit like the former Small Business Job Credit (SBJC), or by shifting the employer/employee EI premium split from 60/40 to 50/50.
7. Increase the Canada Pension Plan (CPP) basic exemption amount.
8. Repeal the escalator tax on alcohol.
9. Simplify and make Immediate Expensing and the Accelerated Capital Cost allowances permanent and available to businesses in all sectors.
10. Legislate workers' compensation board (WCB) surplus rebates and make them non-taxable.

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Restricted capital access puts small firms at a disadvantage

Canada's productivity challenges are long-standing, and SME investment is central to addressing them. Over the past decade, the share of small businesses seeking financing has risen sharply—from 35% in 2012 to 58% in 2022—reflecting growing investment needs. Yet access to financing remains uneven, particularly for micro-businesses, which face significantly lower approval rates than larger firms.[12]

When small businesses cannot access credit on fair terms, they delay or forgo investments in scaling, purchasing machinery, adopting digital tools, and training workers—decisions that directly constrain productivity growth. Rising borrowing costs have compounded these pressures: the share of small businesses struggling with borrowing costs increased from around 20% in early 2022 to nearly 30% by early 2026, while nearly a third of firms report limited working capital (see Figure 4).[13,14]

Access to credit is therefore not just a small business issue; it is a core element of Canada's productivity and competitiveness strategy.

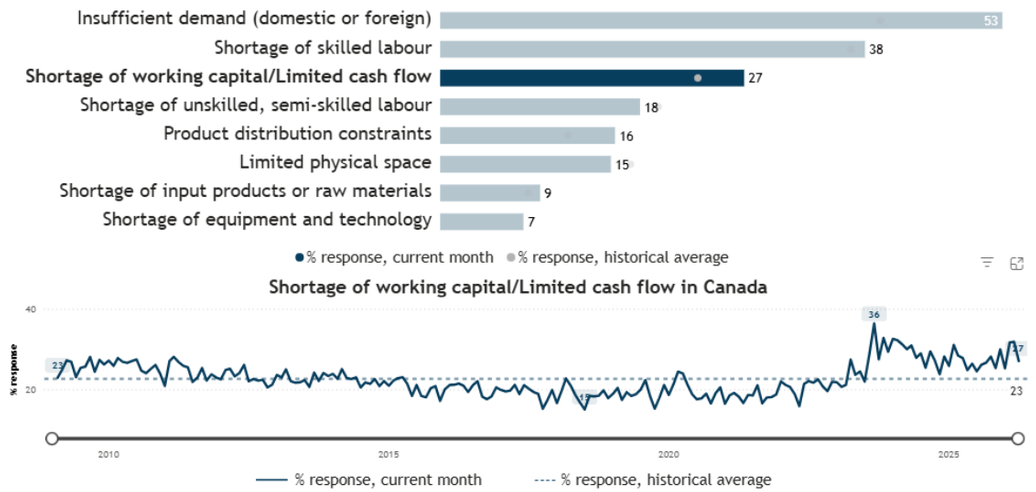
Policy recommendations

Ensuring fair, transparent, and flexible financing options for SMEs will help unlock private-sector investment and support long-term growth across Canada. CFIB recommends:

1. **Monitoring and enhancing the Canada Small Business Financing Program (CSBFP)**
   - Track the performance of the CSBFP to ensure small business owners are benefitting. Special attention should be paid to making sure the program reaches the smallest businesses, not just larger SMEs.
     - Banks should not rely on the CSBFP to guarantee loans they would otherwise provide without the program.
   - Resume transparent public reporting on the efficacy of the CSBFP.
2. **Making financing more accessible and affordable**
   - Banks should increase access to low-cost financing for SMEs.
   - Banks should also strongly consider whether personal collateral is necessary, and if there are alternate solutions, before requesting it from SME clients.
3. **British Columbia, Saskatchewan, and Manitoba provincial governments:** Exempt the purchase of all capital expenditures, including machinery and equipment, from provincial sales taxes (PST). Exempting these purchases could boost investment in these provinces by $1.6 billion, $197 million, and $332 million, respectively.[15]
4. **Improving the non-traditional financing and investment climate for SMEs**
   - Broaden the Lifetime Capital Gains Exemption (LCGE) to also apply to assets (not just shares). This should be available to businesses in all sectors, and could also incentivize the sale of underused or unused property (e.g., buildings, land) for development.
   - Financial institutions should promote alternative sources of financing beyond traditional bank loans (e.g., angel investing, crowdfunding, venture capital) and expedite Open Banking efforts to support small businesses.

Figure 4

Canadian SMEs report a shortage of working capital above the historical average since 2023



Source: CFIB, Your Business Outlook Survey, Feb. 2009–Apr. 2026, n = 317.

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Productivity and competitiveness depend on supporting more than just big businesses: Governments at all levels must create a level playing field

As the federal government implements programs that play a central role in funding housing, infrastructure, and other public projects, it is critical that these investments (whether delivered through procurement or funding programs) be accessible and inclusive for all SMEs.

Programs and procurement rules must allow equal participation from SMEs regardless of their workers' chosen labour model. This is especially important given that 87% of SMEs disagree that government policies should give preference to unionized organizations over non-unionized private businesses.[16] Exclusionary requirements risk sidelining the majority of Canada's job creators.

The preference for programs that favour unionized companies has significant implications for fairness, competition, and cost-effectiveness.

When designing government programs and funding opportunities, it is essential to account for the realities facing SMEs. Unlike larger organizations, SMEs often operate with limited staff, time, and administrative capacity. Programs that are overly complex, resource-intensive, or administratively burdensome can disproportionately exclude SMEs, limiting their ability to participate and benefit.

Policy recommendations

SMEs are ready and able to contribute to Canada's growth and infrastructure development, but they must be given a fair chance to compete. As such, CFIB recommends the following:

1. Implement a fair, open, and inclusive approach to infrastructure funding that allows small firms to fairly compete regardless of whether they are unionized. This would strengthen local economies, promote competition, and ensure that communities of all sizes benefit from national investments.

2. Reject any attempt to impose restrictive Project Labour Agreements (PLAs), Building Trades Union-exclusive Community Benefits Agreements (CBAs), or prevailing wage requirements tied to specific collective bargaining agreements on government-funded projects.

3. Streamline SMEs' access to government procurement opportunities.
    - Standardize the definition of "Canadian business" across all jurisdictions if prioritizing Canadian businesses in government procurement.[17]
    - Ensure firms are not unintentionally excluded due to labour structures or their location within Canada.

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Supporting small strengthens local economies

Over the past year, insufficient customer demand has consistently been cited as the number one factor limiting sales and production growth for more than half (57%) of SMEs.[18] Consumers are either spending less overall or directing more of their spending toward large, low-cost competitors such as big-box retailers and e-commerce giants. For small businesses that rely on consistent local sales to cover operating costs, this shift means stagnant revenues and limited opportunities for growth.

Unfortunately, many consumers may underestimate or be unaware of the economic impact of shopping small. CFIB research shows that when a consumer purchases from a small Canadian retail business, 66 cents of every dollar stay in the local provincial economy, compared with just 11 cents spent at multinational retailers, and just 8 cents spent at an online giant.[19] Strengthening demand for local businesses therefore has meaningful economic benefits for communities.

Independent businesses provide employment, unique products, and personalized services that contribute to vibrant communities, yet they face significant challenges competing with multinational retailers and online platforms. On top of trying to compete with larger businesses, small independent retailers also resoundingly feel that their governments are not looking out for them. In fact, over four in five (84%) believe that larger corporations enjoy preferential treatment from government (Figure 5).[20]

Figure 5

Most small business owners (84%) think big businesses get preferential treatment from government

Source: CFIB, Retail Local Contributions Survey, May 17-June 14, 2023, final results, n = 588.

Weak demand has real consequences for small firms. Lower revenues increase price pressure against large competitors with economies of scale, while flat demand discourages businesses from hiring, expanding, or investing in technology and equipment.

At the same time, Canada's competitive landscape is becoming increasingly concentrated, with a growing number of sectors dominated by a small number of large firms. This market concentration can limit consumer choice, suppress innovation, and make it more difficult for small and independent businesses to compete on a level playing field. Large multinational retailers and digital platforms benefit from significant advantages in pricing power, supply chain control, data access, and regulatory capacity, advantages that are often out of reach for smaller firms.

Without careful attention from governments, these dynamics risk reinforcing a cycle where dominant players continue to gain market share at the expense of local businesses, further weakening entrepreneurship and reducing the diversity of Canada's business landscape. Ensuring competitive, open markets is therefore essential not only for fairness, but for long-term economic resilience and productivity growth.

Encouraging Canadians to support local businesses can help address these challenges. CFIB initiatives such as Small Business Saturday and the #SmallBusinessEveryDay campaign highlight the benefits of shopping locally. Small Business Saturday—held annually between Black Friday and Cyber Monday—encourages Canadians to "keep their loonies local," reminding them that even small purchases support jobs, services, and businesses in their own communities.

Policy recommendations

To help support small businesses and strengthen local economic activity, CFIB recommends the following:

1. As the federal government seeks to modernize competition law in Canada, reforms to the Competition Act must address rising market concentration and ensure small businesses have a fair opportunity to compete, particularly against dominant firms and digital platforms.

2. Governments should initiate and support public awareness campaigns highlighting the positive economic impact of supporting local businesses and the role consumers play in sustaining competitive, diverse marketplaces.

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Priority area 2: Cutting red tape

Canada must reduce the regulatory burden for SMEs

Many Canadian entrepreneurs report that excessive regulatory burdens are limiting their ability to grow and innovate. Nearly nine in ten (87%) small business owners agree that red tape significantly reduces their productivity and ability to grow (Figure 6). With Canada lagging behind most other advanced economies when it comes to regulatory performance, reducing the red tape burden is critical.[21]

> *"Canada is experiencing a marked decline in productivity, and the government is loudly proclaiming that businesses are not investing enough. But what incentive do businesses have to invest in improving productivity if all productivity gains are wiped out by increased administrative burdens imposed by the government? If we are not productive, it's because we are wasting our time and money on counterproductive tasks that are imposed on us."*
>
> — Professional Services Business Owner, 20 to 49 employees, Quebec

The cost of red tape

- In 2024, small business owners lost the equivalent of 32 workdays (256 hours) to red tape. That time could have been spent serving customers, expanding operations, or training staff.[22]
- Regulatory compliance across all levels of government cost Canadian businesses $51.5 billion in 2024, with red tape alone accounting for $17.9 billion (35% of total costs)—a $5.2 billion increase since 2020.[23]
- Smaller businesses are disproportionately affected. Those with fewer than five employees spend 198 hours per employee on compliance and their regulatory costs per employee are over five times those of large businesses.[24]
- Streamlining rules and processes could free up 268 million hours annually, the equivalent of 137,000 full-time jobs, for more productive, growth-oriented work.[25]

This burden is more than just financial. It drains energy, limits work-life balance, and discourages entrepreneurship. Red tape constrains business growth and slows Canada's economic competitiveness and productivity.

While some governments have made meaningful strides to track and report regulatory burdens, compliance demands remain heavy. Confidence in the federal and most provincial governments' commitment to cut red tape is low (6% and 4%, respectively, except for Alberta at 39%).[26] Business owners continue to face unclear rules, slow approvals, and inconsistent guidance across jurisdictions, which diverts time and resources away from growth.

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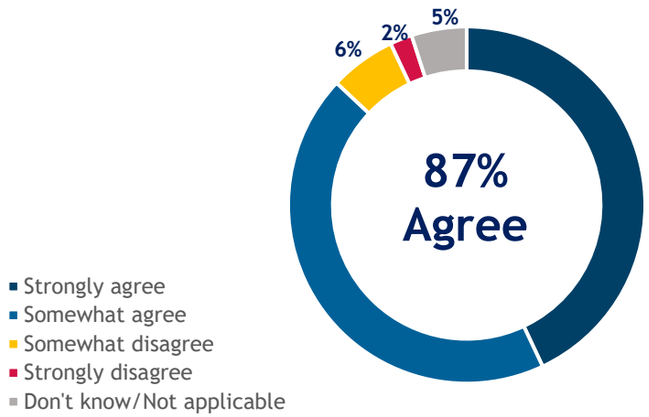
Figure 6

Red tape significantly impacts business productivity & growth[27]

Excessive government regulations significantly reduce my business's productivity and ability to grow



Source: CFIB. Regulation and Paperburden Survey, 2024. July 4-September 8, 2024.

Regulatory reform is a low-cost, high-impact way for governments to enhance output. Streamlining bureaucratic processes and simplifying rules—without compromising public health or safety—gives entrepreneurs the ability to focus on growing their business.

Policy recommendations

To make regulatory reform a driver of productivity and growth, governments should:

1. **Measure and publicly report the regulatory burden -** Assess the full cost of regulation, including hidden and indirect impacts, across all departments and agencies. Institutionalize regular, transparent public reporting—ideally through legislation—so regulatory costs receive the same scrutiny as taxes and spending.

2. **Create a regulatory budget with enforceable offset rules -** Recognize that businesses have finite time and resources to devote to compliance by establishing a formal cap on regulatory burden. Governments should adopt clear and enforceable offset requirements. Jurisdictions still facing a relatively high or growing regulatory requirement burden should implement a two-for-one rule (removing at least two existing requirements for every new one introduced) until their burden reaches a more reasonable level. Those that have made meaningful progress in reducing regulatory burden (i.e., BC, AB, NS) should maintain discipline through a one-for-one rule to keep the burden from growing unchecked.

3. **Make regulatory accountability a political priority -** Appoint a cabinet-level minister responsible for measuring, reporting, and reducing regulatory burden. Promote the importance and a culture of red tape reduction through all of government.

4. **Simplify and modernize compliance -** Make business interactions with government predictable, timely, and easy to navigate by providing clear, plain-language compliance guidance and delivering user-friendly, integrated digital services accessible to businesses of all sizes.

5. **Simplify and reform programs with consideration of SMEs** – For example, the CBSA's Release Prior to Payment (RPP) under CARM should be updated to reflect the realities of SME importing, including exempting small and medium-sized businesses from RPP security requirements.

By reducing unnecessary regulations, governments can give small businesses back the time and resources needed to innovate, hire, and grow—unlocking Canada's entrepreneurial potential.

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Internal trade barriers continue to hold back Canada's productivity

As global trade challenges mount, Canadian small businesses are increasingly turning to domestic markets.[ii] Yet the burden of internal trade barriers—differing regulations, patchwork rules, and inconsistent implementation of mutual recognition—limit small firms' ability to reach new customers, scale operations, and strengthen Canada's economy.

The cost of internal trade barriers

- **Increased vulnerability to external shocks.** Half of small businesses say that improving internal trade would help them counteract the impacts of international trade disputes and global supply chain issues.[28]
- **Missed business opportunities.** Nearly three in five (58%) small business owners believe reducing interprovincial trade barriers would create new opportunities for their business. Only 12% disagree—a strong signal that entrepreneurs see untapped potential if barriers are removed (Figure 7).[29]
- **Significant forgone economic growth.** According to the International Monetary Fund (IMF), fully removing barriers to internal trade in Canada could increase real GDP by nearly 7% over the long term—around C$210 billion in today's dollars.[30]

CFIB has consistently recommended that governments adopt mutual recognition—a simple but powerful rule: if a good or service is approved for sale or use in one jurisdiction, it should be automatically approved for sale or use in all jurisdictions.

Despite some momentum on mutual recognition in 2025, including the historic pan-Canadian Mutual Recognition Agreement (CMRA) for goods and new provincial legislation, the practical impact of these reforms remains limited. Significant implementation gaps, broad exclusions (including food, alcohol, labour, and services), uneven provincial uptake, and non-binding memoranda of understanding (MOU) risk leaving businesses operating within a fragmented, patchwork system that could create new layers of red tape.[31]

When goods, services, and workers cannot move freely across provinces, businesses see higher costs, reduced efficiency, and fewer growth opportunities, weakening Canada's competitiveness.

Nearly 80% of Canadian small businesses support their provincial/territorial government in committing to transparency and cooperation on interprovincial trade by adopting a mutual recognition legislation.

Source: CFIB, 2025 State of Internal Trade Report Card.

[ii] As a result of the current U.S.-Canada trade war, about one-third of businesses have already pivoted away from the U.S., and another third are considering it. The majority of businesses (67%) seeking alternatives are turning to Canadian suppliers or customers, over one-third to the EU, and 21% to Mexico. (CFIB, U.S.-Canada Trade War and Your Business Survey, August 2025, n = 3,315.)

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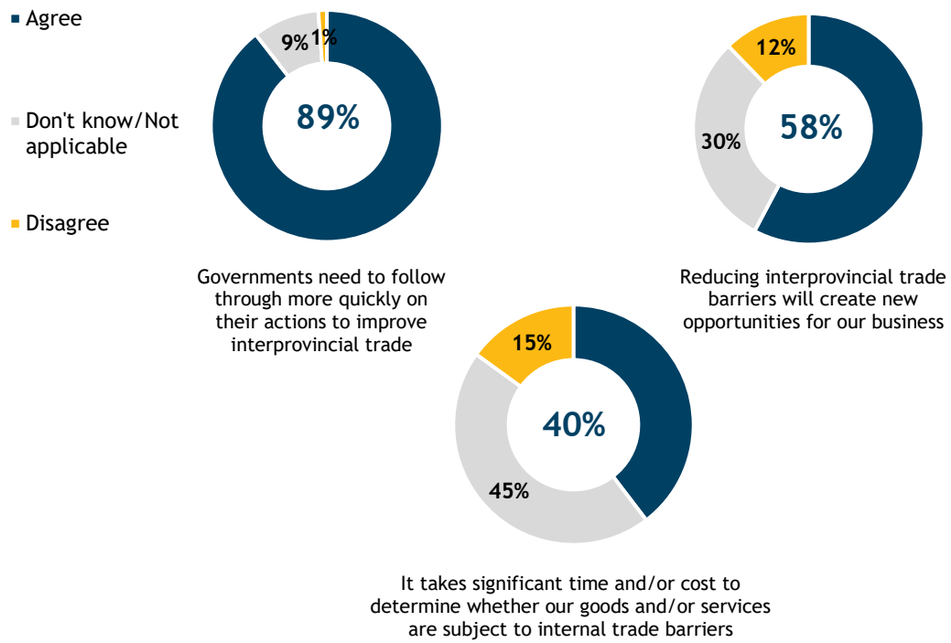
Figure 7

Canadian small businesses overwhelmingly support reducing interprovincial trade barriers, which they see as deterrents to business expansion due to the cost and time associated with them



Source: CFIB, April Your Voice Survey - April 10-24, 2025, based on 2,561 responses. Final results.

Policy recommendations

Governments can strengthen the domestic market and boost productivity by:

1. **Ensuring effective implementation of existing mutual recognition frameworks** - Ensure the CMRA and provincial legislation are applied consistently and transparently, with minimal carve-outs.[32]

2. **Expanding mutual recognition beyond its current scope** - Expand coverage to include food and alcohol, as well as services—to improve labour mobility. For example, certification processes for licensed professionals should be streamlined, allowing them to work within the scope of their existing training and experience while undergoing registration processes in a new province or territory.[33]

3. **Facilitating food movement across provinces** - Align federal and provincial rules to reduce duplication while maintaining safety and traceability.

4. **Ensuring fair and non-discriminatory access to public procurement nationwide** –
    - Remove procurement rules and practices that favour local or provincial suppliers over those from other Canadian provinces.
    - Standardize the definition of “Canadian business” across all jurisdictions and ensure small firms have fair access to government contracts nationwide.

5. **Improving logistics and interprovincial trucking** - Provide clarity and clarify implementation timelines for the interprovincial trucking MOU (i.e., what rules will be mutually recognized, how enforcement will function).[34]

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Priority area 3: Responding to Canada's evolving labour market

Canada is undergoing a profound demographic transformation that poses long-term challenges for economic growth, productivity, and entrepreneurship. Since 1990, the share of the working-age population (ages 15 to 64) has been steadily declining, while the proportion of older Canadians continues to rise.[35] Projections show that this trend will persist well into the coming decades, reshaping Canada's labour force and economic potential.

The implications of this shift are significant. As the population ages, Canada's dependency ratio (the number of people typically not in the labour force relative to those who are working) continues to climb. The dependency ratio stood at 32% in 2023, and is projected to reach 48.6% by 2060.[36] While this does not necessarily imply a decline in the absolute number of people able to work, it does signal increased pressure on labour markets, public finances, and the availability of experienced workers as retirements accelerate.

At the same time, Canada's SMEs continue to face challenges in the labour market. While vacancy rates have eased, many are still struggling not just to find workers, but to find candidates with the right skills, expectations, and qualifications. According to CFIB's Monthly Business Barometer®, skilled labour shortages remain the second-highest constraint on sales and growth for 38% of small businesses.[37]

Temporary foreign workers contribute to Canada's short- and long-term growth

The Temporary Foreign Worker Program (TFWP) plays a key role in supporting short-term economic stability by helping to address persistent labour shortages. Yet, temporary foreign workers are not simply filling immediate gaps. They also represent an important part of Canada's future workforce, as many go on to transition to permanent residency.

In a 2024-2025 survey of businesses that had turned to the TFWP to meet their labour market needs, 57% said they would have to scale back their growth plans if they could not retain or have access to foreign workers and 52% would be unable to fill orders or render services. Nearly a quarter (24%) would have to reduce their hours of operation and 18% stated that it was very likely that they would have to close their operations.[38]

Many Canadians also mistakenly believe employers can easily bypass local workers by hiring through the TFWP. CFIB's snapshot proves that small business owners hire TFWs out of necessity and to fill gaps where local skilled labour is not available.[39] Recent restrictions to the TFWP will harm small businesses and essential industries, as temporary foreign workers are crucial for sustaining production, keeping supply chains moving, and supporting economic stability. Limiting access would not fix labour shortages. It would worsen them, causing slowdowns, lost contracts, and higher costs for Canadians.

Over half (52%) of small business owners using the TFWP reported that TFWs enabled them to continue employing Canadians & 76% stated that TFWs enabled them to meet customer demand for goods & services.

Source: CFIB, Survey on Recent Changes to Temporary Foreign Worker Program, November 7, 2024-January 23, 2025, n = 1,645.

Policy recommendations

1. Keep, protect, and defend the TFWP and consult the business community in advance of future reform.
2. Remove blanket restrictions like TFWP caps and refusal to process policies. Let employers make their case as to why they are unable to hire a Canadian for their position.
3. Facilitate the retention of temporary foreign workers (TFWs) already in Canada through a grandfathering clause.
4. Increase the space allocation for economic immigration and prioritize TFWs already in Canada.
5. Introduce a stream for foreign workers with at least 18 months of experience working in Canada at any TEER level, including lower-skilled workers, if they have status and have been declaring and paying taxes in Canada.
6. Ensure that Canada's immigration programs better represent the labour needs of all sectors and regions.

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Shortage of skilled labour is constraining business expansion

Canada's labour market is showing signs of easing pressure, with job vacancy rates falling from 3.7% in January 2024 to 2.9% in February 2025.[40] However, this improvement masks the structural challenges small businesses are facing. Over half (54%) of SMEs still cite labour shortages as a major barrier to growth,[41] and critically, 38% report that a shortage of skilled labour is directly limiting their ability to increase sales or production (Figure 8).

At the core of this challenge is a persistent mismatch between business needs and the available workforce. A full 69% of SMEs say the primary obstacle to recruiting skilled employees is a shortage of qualified candidates within their sectors. But the issue runs deeper: nearly 57% of small businesses report a disconnect between what candidates expect in terms of pay or benefits and what the business is capable of offering while remaining competitive and viable.[42]

To meet their labour needs, many SMEs are also turning to automation.[43] However, smaller businesses, particularly micro-enterprises (0 to 4 employees), tend to view automation as not well suited to their business model. That said, this trend shifts significantly as company size increases, with medium-sized firms showing a much greater openness to automation.[44] This suggests that many of the barriers for smaller businesses stem from a lack of information, clarity, or confidence rather than from the technology itself. By better supporting these businesses and simplifying the pathway to adoption, SMEs may become more willing to integrate automation into their operations. Finally, closing labour shortage gaps also requires strengthening interprovincial labour mobility, particularly by expanding mutual recognition of qualifications and services so workers can move more freely to where they are needed most.

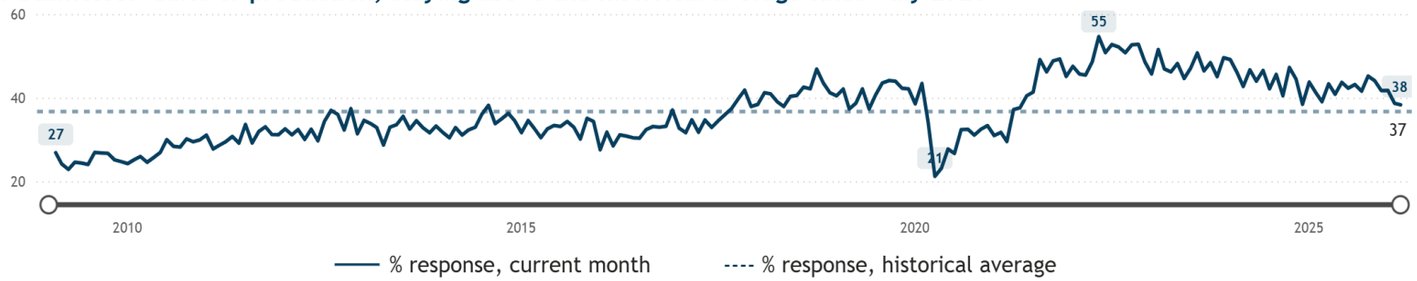
Policy recommendations

To address these persistent labour challenges, the following recommendations provide guidance for governments to support SMEs in attracting and retaining skilled workers.

1. Improve workforce quality through training incentives, better onboarding or work-ready wrap-around services,[iii] and stronger partnerships with educational institutions.
2. Leverage labour mobility to help address labour gaps by implementing mutual recognition for labour and services across provincial borders (see Appendix 2b. ii).
3. Provide tax credits or Employment Insurance (EI) premium holidays for SMEs hiring and training new or inexperienced workers.
4. Support SMEs' ability to retain older workers by reducing the impacts of old age benefit claw-backs due to earned income (e.g., enhance the Age Credit Amount).
5. Support SMEs by demystifying the automation process for smaller businesses, with the goal of increasing their adoption rate.

Figure 8

Skilled labour shortages hinder businesses' sales or production, staying above the historical average since July 2020



Survey question: What factors are limiting your ability to increase sales or production?

Source: CFIB, Your Business Outlook Survey, Feb. 2009–Apr. 2026 [% dealing with skilled labour shortages], n = 317.

[iii] Work ready wrap around services are supports that help individuals overcome barriers to employment—such as transportation, childcare, housing, or mental health needs—so they can successfully prepare for and sustain work. For example, a job training program might provide transit passes, counselling, and mentorship alongside skills training to ensure participants can fully engage and succeed.

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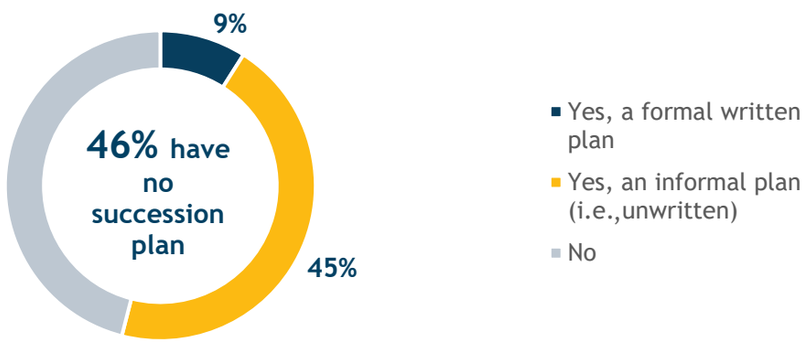
Ensuring smooth business succession is critical for SMEs

CFIB research suggests that the business landscape is poised for a dramatic shift, as many businesses are expected to be transferred to a new generation of owners—potentially worth more than $2 trillion in business assets.[45] Despite the magnitude of this shift, only 9% of owners have a formal written succession plan, while nearly half have no plan at all (Figure 9).

Figure 9
Existence of a succession plan (% response)



Source: CFIB, Business Succession Planning Survey, 2022, n = 2,479.

The consequences of insufficient planning are significant. Poorly managed ownership transitions can lead to premature sales, business closures, bankruptcies, loss of community services, job losses, and a decline in local economic activity.

Even more concerning is the growing involvement of private equity firms in sectors traditionally dominated by small and medium-sized businesses.[46] As more Canadian businesses go up for sale, private equity sees an opportunity to acquire them.

According to the Canadian Venture Capital and Private Equity Association, over 65% of private equity transactions in Canada occur in the SME space.[47] Without stronger support for Canadian entrepreneurs to purchase these businesses, SMEs will continue to disappear, and markets will become increasingly consolidated under private equity ownership. This translates into fewer locally owned SMEs, fewer jobs, reduced competition, higher prices for consumers, and ultimately weaker economic resilience in communities across the country.

Policy recommendations

1. Increase awareness, particularly among young entrepreneurs, about the opportunities and advantages of purchasing an existing business.

2. Enhance awareness of Employee Ownership Trusts (EOTs) as a tool for business succession and make the $10-million capital gains exemption for EOTs permanent.

3. Allow small corporations to defer the tax on capital gains from the transfer of a business to the owner's children.

4. Create a dedicated Business Succession Stream in immigration programs, matching skilled newcomers with owners looking to exit. This stream would not be about starting a new business but rather taking over an existing and well-established one.

5. Create a secure, Canada-wide business transition marketplace, similar to Repreneuriat Québec, where retiring owners can list businesses and find vetted successors (family, employees, or entrepreneurs).

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Conclusion

SMEs account for more than 98% of Canadian employers and employ over 60% of the private-sector workforce.[48] They are not a niche segment of the economy. They provide stability during turbulent times and anchor communities when conditions get tough. Yet ongoing economic instability is straining many small firms, slowing growth, limiting investment, and discouraging new entrepreneurs. As a result, the flow of new small businesses is drying up, creating an entrepreneurial drought.

Governments need to act now. When fewer small businesses start, grow, and thrive, the country loses more than storefronts. It loses competition, innovation, local services, and productivity. And our economy becomes less dynamic.

Addressing this challenge requires governments to refocus economic policy on creating the conditions where entrepreneurs can succeed. Lowering the cost of doing business, improving access to financing, cutting unnecessary red tape, and ensuring labour policies reflect the realities facing employers are essential steps toward rebuilding Canada’s entrepreneurial pipeline.

At the same time, Canada must prepare for the next generation of business owners. Supporting smooth succession planning, expanding pathways for entrepreneurs to acquire existing businesses, and encouraging Canadians to pursue entrepreneurship will be critical to maintaining vibrant local economies across the country.

Entrepreneurs are ready to invest, innovate, and grow, but practical policy reforms that reduce barriers and restore confidence are needed to fix Canada’s shrinking business landscape and ensure that Canada remains a place where starting and growing a business is not only possible, but worthwhile. By addressing the priorities laid out in this report, governments can strengthen communities, boost productivity, and end Canada’s entrepreneurial drought.

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Appendix: Summary of recommendations

1. Reducing the cost of doing business

1a. Fiscal pressures continue to strain small businesses

i. Reduce small business corporate income tax rates (SBCTR).
   a. At the federal level, reduce the SBCTR from 9% to 6%.
   b. Provincial governments should permanently lower the SBCTR to 0% by 2030.[49]

ii. Federal and provincial governments should raise the SBCTR threshold to at least $700,000 and index it to inflation going forward.

iii. The federal government should increase the passive income threshold to $60,000 and index it to inflation moving forward, as it remains at $50,000 and has not increased since 2018.

iv. Implement a business income deduction for personal income tax filers so sole proprietors don't pay tax on a portion of their business income (similar to the Qualified Business Income [QBI] deduction in the U.S.).[50]

v. Implement a lower property tax rate for small businesses, to reduce property tax unfairness (similar to the small business property tax subclass in Toronto and Ottawa).

vi. Introduce a lower employment insurance (EI) premium rate for smaller employers, by introducing a permanent, targeted credit like the former Small Business Job Credit (SBJC), or by shifting the employer/employee EI premium split from 60/40 to 50/50.

vii. Increase the Canada Pension Plan (CPP) basic exemption amount.

viii. Repeal the escalator tax on alcohol.

ix. Simplify and make Immediate Expensing and the Accelerated Capital Cost allowances permanent and available to businesses in all sectors.

x. Legislate workers' compensation board (WCB) surplus rebates and make them non-taxable.

"Taxes are getting out of control. It's hard to have a thriving economy with the current tax burden. This makes it hard to give raises when our employees' cost of living is also increasing, and our customers are also trying to spend less to manage themselves."

— Professional Services Business Owner,
20 to 49 employees, Alberta

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1b. Restricted capital access puts small firms at a disadvantage

i. **Monitor and enhance the Canada Small Business Financing Program (CSBFP)**
   a. Track the performance of the CSBFP to ensure small business owners are benefitting. Special attention should be paid to making sure the program reaches the smallest businesses, not just larger SMEs. Banks should not rely on the CSBFP to guarantee loans they would otherwise provide without the program.
   b. Resume transparent public reporting on the efficacy of the CSBFP.

ii. **Make financing more accessible and affordable**
   a. Banks should increase access to low-cost financing for SMEs.
   b. Banks should also strongly consider whether personal collateral is necessary, and if there are alternate solutions, before requesting it from SME clients.

iii. **British Columbia, Saskatchewan, and Manitoba provincial governments:** Exempt the purchase of all capital expenditures, including machinery and equipment, from provincial sales taxes (PST). Exempting these purchases could boost investment in these provinces by $1.6 billion, $197 million, and $332 million, respectively.[51]

iv. **Improve the non-traditional financing and investment climate for SMEs**
   a. Broaden the Lifetime Capital Gains Exemption (LCGE) to also apply to assets (not just shares).
      i. This should be available to businesses in all sectors, and could also incentivize the sale of underused or unused property (e.g., buildings, land) for development.
   b. Financial institutions should promote alternative sources of financing beyond traditional bank loans (e.g., angel investing, crowdfunding, venture capital) and expedite Open Banking efforts to support small businesses.

1c. Level the playing field for SMEs

i. Implement a fair, open, and inclusive approach to infrastructure funding—one that allows small firms to fairly compete whether they are unionized or not—would strengthen local economies, promote competition, and ensure that communities of all sizes benefit from national investments.

ii. Reject any attempt to impose restrictive Project Labour Agreements (PLAs), Building Trades Union-exclusive Community Benefits Agreements (CBAs), or prevailing wage requirements tied to specific collective bargaining agreements on government-funded projects.

iii. Streamline SMEs' access to government procurement opportunities.
   a. Standardize the definition of "Canadian business" across all jurisdictions if prioritizing Canadian businesses in government procurement.[52]
   b. Ensure firms are not unintentionally excluded due to labour structures or their location within Canada.

iv. As the federal government seeks to modernize competition law in Canada, reforms to the Competition Act must address rising market concentration and ensure small businesses have a fair opportunity to compete, particularly against dominant firms and digital platforms.

v. Governments should initiate and support public awareness campaigns highlighting the positive economic impact of supporting local businesses and the role consumers play in sustaining competitive, diverse marketplaces.

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2. Cutting red tape

2a. Reduce the regulatory burden

i. Measure and publicly report the regulatory burden. Assess the full cost of regulation, including hidden and indirect impacts, across all departments and agencies, and institutionalize regular, transparent public reporting—ideally through legislation—so regulatory costs receive the same scrutiny as taxes and spending.

ii. Create a regulatory budget with enforceable offset rules. Recognize that businesses have finite time and resources to devote to compliance by establishing a formal cap on regulatory burden. Governments should adopt clear and enforceable offset requirements: jurisdictions still facing a relatively high or growing regulatory requirement burden should implement a two-for-one rule (removing at least two existing requirements for every new one introduced) until their burden reaches a more reasonable level. Those that have made meaningful progress in reducing regulatory burden (i.e., BC, AB, NS) should maintain discipline through a one-for-one rule to keep the burden from growing unchecked.

iii. Make regulatory accountability a political priority. Appoint a cabinet-level minister responsible for measuring, reporting, and reducing regulatory burden. Promote the importance and a culture of red tape reduction through all of government.

iv. Simplify and modernize compliance. Make business interactions with government predictable, timely, and easy to navigate by providing clear, plain-language compliance guidance and delivering user-friendly, integrated digital services accessible to businesses of all sizes.

> *"Regulations should be clear and easy to follow [...]. It feels as if the government and its regulatory authorities are intentionally ambiguous, which creates a huge amount of work for consultants and lawyers. But if we want to be a competitive and productive business environment, that time and money would be better spent on growing businesses. Small business owners want to follow the rules. Make it easy."*
>
> — Wholesale Business Owner,
> 5 to 19 employees, Ontario

v. Simplify and reform programs with consideration of SMEs. For example, the CBSA's Release Prior to Payment (RPP) under CARM should be updated to reflect the realities of SME importing, including exempting small and medium-sized businesses from RPP security requirements.

2b. Lower internal trade barriers

i. Fully implement mutual recognition. Ensure the CMRA and provincial legislation are applied consistently and transparently, with minimal carve-outs.[53]

ii. Expand mutual recognition beyond its current scope to include food and alcohol, as well as services—to improve labour mobility. For example, certification processes for licensed professionals should be streamlined, allowing them to work within the scope of their existing training and experience while undergoing registration processes in a new province or territory.[54]

iii. Facilitate food movement across provinces. Align federal and provincial rules to reduce duplication while maintaining safety and traceability.

iv. Ensure fair and non-discriminatory access to public procurement nationwide.
   a. Remove procurement rules and practices that favour local or provincial suppliers over those from other Canadian provinces.
   b. Standardize the definition of "Canadian business" across all jurisdictions and ensure small firms have fair access to government contracts nationwide.

v. Improve logistics and interprovincial trucking. Provide clarity and clarify implementation timelines for the interprovincial trucking MOU (i.e., what rules will be mutually recognized, how enforcement will function).[55]

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3. Responding to Canada's evolving labour market

3a. Protect the Temporary Foreign Worker Program

i. Keep, protect, and defend the TFWP and consult the business community in advance of future reform.

ii. Remove blanket restrictions like TFWP caps and refusal to process policies. Let employers make their case as to why they are unable to hire a Canadian for their position.

iii. Facilitate the retention of Temporary Foreign Workers (TFWs) already in Canada through a grandfathering clause.

iv. Increase the space allocation for economic immigration and prioritize TFWs already in Canada.

v. Introduce a stream for foreign workers with at least 18 months of experience working in Canada at any TEER level, including lower-skilled workers, if they have status and have been declaring and paying taxes in Canada.

vi. Ensure that Canada's immigration programs better represent the labour needs of all sectors and regions.

> *"I have 3 TFW cooks right now that I desperately need to keep my restaurant running. Two of them are not able to renew and I am having a difficult time finding replacements. I might have to close down a couple days of the week."*
>
> — Hospitality Business Owner, British Columbia

3b. Help address labour shortages

i. Improve workforce quality through training incentives, better onboarding or work-ready wrap-around services, and stronger partnerships with educational institutions.

ii. Leverage labour mobility to help address labour gaps by implementing mutual recognition for labour and services across provincial borders.

iii. Provide tax credits or Employment Insurance (EI) premium holidays for SMEs hiring and training new or inexperienced workers.

iv. Support SMEs' ability to retain older workers by reducing the impacts of old age benefit claw-backs due to earned income (e.g., enhance the Age Credit Amount).

v. Support SMEs by demystifying the automation process for smaller businesses, with the goal of increasing their adoption rate.

3c. Ensure smooth business succession

i. Increase awareness, particularly among young entrepreneurs, about the opportunities and advantages of purchasing an existing business.

ii. Enhance awareness of Employee Ownership Trusts (EOTs) as a tool for business succession and make the $10-million capital gains exemption for EOTs permanent.

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v. Create a secure, Canada-wide business transition marketplace, similar to Repreneuriat Québec, where retiring owners can list businesses and find vetted successors (family, employees, or entrepreneurs).

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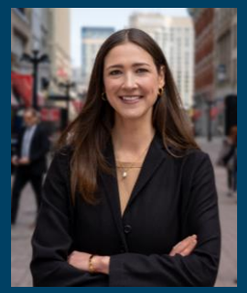

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